



Accordia Golf Trust

(AGT SP/ACCO.SI)

It's a new dawn, It's a new day

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- Reported a 1Q19 distributable income of JPY 1,665mn (-7% YoY) due to unfavourable weather and an earthquake around Osaka region in June 2018, which resulted in a few golf courses halting operations.
- More importantly, key refinancing risk has been removed, paving the way for DPU-accretive acquisitions.
- We expect FY2019E (YE March) DPU to decline to 4.0 SG cents (7.1% div yield) due to the one-off expenses. Thereafter, we expect DPU to recover to at least 5.2 SG cents, which would offer an attractive 9.3% div yield.
- We reiterate our BUY recommendation and fair value target of S\$0.70. **AGT is too cheap to ignore at this price.**

| Financials & Key Operating Statistics | | | | | |
|---------------------------------------|-------|------|-------|-------|-------|
| YE Mar JPY bn | 2017 | 2018 | 2019F | 2020F | 2021F |
| Revenue | 51.9 | 51.5 | 50.7 | 50.5 | 50.3 |
| PATMI | 4.0 | 4.1 | 5.3 | 5.3 | 5.3 |
| Core PATMI | 5.5 | 5.8 | 5.3 | 5.3 | 5.3 |
| Core EPS (JPY) | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Core EPS grth (%) | -15.6 | 5.7 | -8.6 | -0.5 | -0.5 |
| DPS (SG Cents) | 6.0 | 3.9 | 4.0 | 5.3 | 5.2 |
| Div Yield (%) | 10.7 | 6.8 | 7.1 | 9.3 | 9.3 |
| Net Margin (%) | 7.7 | 8.0 | 10.5 | 10.5 | 10.5 |
| Loan-to-Value (%) | 31.3 | 29.4 | 29.3 | 29.5 | 29.6 |
| ROE (%) | 5.0 | 5.1 | 6.5 | 6.5 | 6.4 |

Source: Company Data, KGI Research

Too cheap to ignore. AGT's share price declined 13% over the past 1 year due to a disappointing FY2018 performance. DPU in FY2018 dropped to 3.85 SG cents from 6.04 SG cents in FY2017 due to a combination of bad weather, refinancing costs and one-off expenses from repayment of membership deposits. However, we believe its current share price offers an attractive buying opportunity for investors.

Key overhang removed with 5-year refinancing. The successful refinancing of its debt removes a key overhang. AGT was able to refinance all its term loans worth a total of JPY 43.5 bn due August 2018 with two new lenders – Aozora Bank and ORIX Co. Ltd – for five years at a slightly lower interest rate of T+1.95% (previously T+2.0%; T=6mth Yen TIBOR). More interestingly, one of the two new lenders – ORIX Co – is the third largest golf operator in Japan with 39 golf courses. Accordia Group is the second largest golf operator in Japan with 133 courses, just below PGM Group that operates 137 courses. The 2% upfront fee will be paid in 2Q19 and will impact 2019F DPU by 20% or 1 SG cents.

Figure 1: New refinancing terms

| July 2018 Refinancing | New loan terms | Previous Loan terms |
|-----------------------|----------------|--------------------------|
| Loan Term | August 2023 | August 2018/August 2019 |
| Interest Rate | T+1.95% | T+2% including swap rate |
| Upfront fee | 2% (for 5 yrs) | 2.80% |
| Annual amortisation | No | 1.00% |

Source: Company data, KGI Research

| BUY - Maintain | | | |
|-----------------------------|-------|-------------------------------|------------|
| Price as of 16 Aug 18 (SGD) | 0.57 | Performance (Absolute) | |
| 12M TP (\$) | 0.70 | 1 Month (%) | -5.0 |
| Previous TP (\$) | 0.70 | 3 Month (%) | -4.6 |
| Upside, incl div (%) | 33.2 | 12 Month (%) | -16.1 |
| Trading data | | Perf. vs STI Index (Red) | |
| Mkt Cap (\$mn) | 621 | | |
| Issued Shares (mn) | 1,099 | | |
| Vol - 3M Daily avg (mn) | 0.8 | | |
| Val - 3M Daily avg (\$mn) | 0.5 | | |
| Free Float (%) | 71.1% | | |
| Major Shareholders | | Previous Recommendations | |
| MBK Partners | 28.9% | 31-May-18 | BUY \$0.70 |
| Goldman sachs | 14.0% | 24-Apr-18 | BUY \$0.78 |
| Daiwa Securities | 6.0% | 21-Nov-17 | BUY \$0.78 |

Acquisition now a reality after four years. The recent senior management changes may pave the way for DPU-accretive acquisitions. AGT recently announced a new Chief Financial Officer (CFO), Mr Fumihiko Niwa and a new Executive Director Mr Nakanishi Toyo. Mr Niwa was previously the Corporate Director of Accordia Golf Co, the sponsor of AGT. This development follows the resignation of AGT's Chief Operating Officer (COO), Mr Toshikatsu Makishima who was previously with the Daiwa Group. In our view, the management changes reflects the new direction and control that AGT's sponsor is taking – specifically acquisitions of new golf courses as a growth driver, a strategy that had lacked follow through since its IPO in August 2014. (See [page 2](#) for details on debt headroom)

Valuation & Action: We reiterate our BUY recommendation and fair value of 70 SG cents. Although this year's DPU is expected to drop to 4.0 SG cents due to the one-off expenses, we expect DPU to recover to 5.2 SG cents in FY2019, which would offer an attractive dividend yield of 9% at its current price. Upside catalysts are DPU-accretive acquisitions over the next 12 months.

Downside limited. AGT is currently trading at 0.7x P/B, which is close to -1SD below its historical average. Thus, at these valuations, we believe downside risks are limited. However, we have to highlight that the recent series of bad weather in Japan may affect AGT's performance in 2Q FY2019 and may cap short-term upside potential.

Risks: Forex risk to DPU as earnings are mostly in JPY while distributions are in SGD. Macroeconomic environment and adverse weather conditions also affect visitor numbers to golf courses.

Short-term catalysts from acquisitions

DPU-accretive acquisition now a possibility. AGT had not been able to acquire new golf courses since its IPO in August 2014 due to refinancing issues with the previous syndicated loan. However, we understand that the new lenders, Aozora Bank and Orix Co, are more open to opportunities to fund acquisitions of such asset classes.

Huge debt headroom. AGT’s loan-to-valuation (LTV) ratio currently stands at 30.4%. The maximum LTV ratio that AGT can leverage up to is 60.0%, or an additional debt headroom that would allow it to acquire up to JPY 130bn (S\$1.6bn) of new assets. Assuming a conservative LTV ratio of 35.0%, this would allow AGT to acquire up to JPY 20bn worth of golf courses, or 10 golf courses at an average price of JPY 2.0bn each.

We believe that such acquisitions will be highly accretive at 5% net yield (pre-tax) as AGT is looking to acquire at around 8.0% net operating income yield (in-line with its current portfolio) while management intends to fund acquisitions by taking debt, which we think may cost 2.0%-3.0%.

Consolidation is positive for AGT, in our view. We understand from our meetings with local management in Japan that smaller and independently-run golf courses are closing down. For example, 9 golf courses closed down over the past five years around its Kasumi Golf Course, leaving only 12 golf courses remaining. As a result, the remaining golf courses around that area are operated by the largest golf companies in Japan, including Accordia (4 courses), Orix (3) and PGM (1).

Figure 2: Top golf course operators in Japan

| No | Company Name | No of golf courses | Market share |
|----|--------------------------------------|--------------------|--------------|
| 1 | PGM Group | 137 | 6.00% |
| 2 | Accordia Group (Accordia Golf + AGT) | 133 | 5.83% |
| 3 | Orix Group | 39 | 1.71% |
| 4 | Seibu Group | 29 | 1.27% |
| 5 | Ichikawa Golf Kogyo Group | 28 | 1.23% |
| 6 | Tokyu Group | 26 | 1.10% |
| 7 | Cherry Golf Group | 20 | 0.88% |
| 8 | Unimat Group | 18 | 0.79% |
| 9 | Taiheiyu Club | 17 | 0.74% |
| 10 | Chateraise | 16 | 0.70% |
| | Total | 463 | 20.3% |

Source: Golf Management July 2018

Accordia Group + Orix Co? Given this prevailing trend, the largest golf operators such as Accordia may eventually increase market share given the benefits from their size i.e. economies of scale. Thus, it was an interesting development for us that the new refinancing package was facilitated by Aozora Bank and Orix Co. Orix Co is the third largest golf operator in Japan, with 39 golf courses. A potential consolidation between Accordia Group and Orix Co would definitely be positive in our view, and would make the combined entity the largest golf operator in Japan with a total of 176 golf courses and a 7.5% market share of golf courses in the country.

Japan tourism boom a positive tailwind

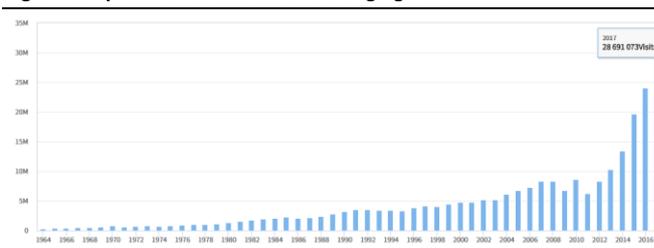
Boom time. Japan attracted a record 28.7mn visitors in 2017, representing a 19% YoY increase and its sixth straight annual increase. Asian countries have led the growth of international tourism, with 80% of visitors to Japan coming from China, Korea, Taiwan and Hong Kong. There could be potential room for faster growth as the country attracts more western leisure tourists, who generally stay longer and spend about 30% more than the overall average of overseas tourists.

Strong momentum ahead of global sports events in Japan.

The current growth in visitor arrivals may continue as Japan moves closer towards the Rugby World Cup (RWC) in 2019 and the Tokyo Olympics in 2020, as well as the highly anticipated integrated resort developments.

The RWC is a significant milestone for Japan’s tourism industry as this will mark the first time the RWC is held in Asia. A total of 20 teams from around the world will compete, with the first matches to start in Tokyo in September 2018, leading up to the final match in Yokohama on November 2.

Figure 3: Japan visitor arrival – double digit growth



Source: Japan National Tourism Organisation (JNTO)

Valuations

We maintain our BUY recommendation on AGT. After a challenging FY2018, we expect DPU to recover going forward. We utilised the following assumptions in our DDM-based valuation:

Discount rate of 7.0% and long-term growth rate of 0%, which we believe is reasonable based on the forward average DPU yield of business trusts in Singapore. Our discount rate is also higher than the average forward DPU yield for SREITs across all sectors, offering a spread of between 100-200bps.

Long-term exchange rate of 80 JPY/SGD, derived from Bloomberg consensus' spot JPY/USD forecast over the next four years. Our assumption is 10% higher than the 20-year average of 72 JPY/SGD.

Revenue from golf courses is a function of total number of visitors and playing fees per visitor. We used the six-years' annual visitor average given the volatility caused by the weather on some years (e.g., FY12 and FY14 saw a decline in visitors due to adverse weather conditions). We expect golf course revenue per visitor to decline 0.5% per year from our base of JPY 6,000. Golf course revenues per visitor have been on a downward trend (FY13: JPY 6,900 vs FY16: JPY 6,000), mainly as the use of caddies decline at AGT's golf courses. The profit margins from caddy fees are minimal and does not contribute to AGT's overall performance. An upside catalyst with lower playing fees is that it may make it more appealing to a wider range of players.

Revenues from restaurants to remain stable throughout our forecast period. This segment makes up around a quarter of our revenue forecast. Restaurant revenue is driven by the total number of visitors, which has been increasing over the past five years (except in FY14, which was due to heavy snowfall). Number of visitors in FY16 was 5.81m compared to the 5.59m six-year average. We have assumed restaurant revenue per visitor of around JPY 2,223, which has been stable around these levels over the past four years.

We expect **membership fees** to decline over the long term as more players come as visitors instead. Membership fees contributed around 9% of FY17 revenues. We expect a downward trend of around -3% YoY in our ten-year forecast period, and to stabilise thereafter.

Adjustments to net income to arrive at distributable income mainly comes from membership revenue that is booked every quarter but collected in the fourth quarter (Jan-Mar), as well as membership deposits that are refunded at the request of members.

We assumed a **payout ratio of 90%** for DPU, which we believe is conservative. AGT has historically paid out 100% of Distributable income available.

Management has guided for **capex** to be around 3% to 5% of total group revenues. We have not included any acquisition capex in our forecasts, which could provide potential DPU growth.

Figure 4: DDM Valuation - Base case

| JPY billion, YE 31 March | 2016 | 2017 | 2018 | 2019F | 2020F | 2021F | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F |
|---------------------------------------|-------------|---|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Number of golf courses | 89 | 89 | 89 | 89 | 89 | 89 | 89 | 89 | 89 | 89 | 89 | 89 | 89 |
| Annual visitors (million) | 5.807 | 5.753 | 5.695 | 5.617 | 5.617 | 5.617 | 5.617 | 5.617 | 5.617 | 5.617 | 5.617 | 5.617 | 5.617 |
| Playing fees per visitor (thous) | 5.975 | 5.975 | 6.011 | 5.981 | 5.951 | 5.922 | 5.892 | 5.862 | 5.833 | 5.804 | 5.775 | 5.746 | 5.717 |
| Restaurant revenue per visit | 2.224 | 2.212 | 2.195 | 2.195 | 2.195 | 2.195 | 2.195 | 2.195 | 2.195 | 2.195 | 2.195 | 2.195 | 2.195 |
| Revenue - Golf courses | 34.8 | 34.4 | 34.2 | 33.6 | 33.4 | 33.3 | 33.1 | 32.9 | 32.8 | 32.6 | 32.4 | 32.3 | 32.1 |
| YoY (%) | | (1.3%) | (0.4%) | (1.9%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) |
| Revenue - Restaurants | 12.9 | 12.7 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 |
| YoY (%) | | (1.5%) | (1.8%) | - | - | - | - | - | - | - | - | - | - |
| Revenue - Membership | 4.8 | 4.4 | 4.1 | 4.0 | 4.0 | 3.9 | 3.8 | 3.7 | 3.7 | 3.6 | 3.5 | 3.4 | 3.4 |
| YoY (%) | | (7.8%) | (6.9%) | (2.0%) | (2.0%) | (2.0%) | (2.0%) | (2.0%) | (2.0%) | (2.0%) | (2.0%) | (2.0%) | (2.0%) |
| Revenue - Total | 53.2 | 51.9 | 51.5 | 50.7 | 50.5 | 50.3 | 50.0 | 49.8 | 49.5 | 49.3 | 49.1 | 48.9 | 48.6 |
| YoY (%) | | (2.4%) | (0.9%) | (1.4%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) | (0.5%) |
| Valuation - DDM | 2016 | 2017 | 2018 | 2019F | 2020F | 2021F | 2022F | 2023F | 2024F | 2025F | 2026F | 2027F | 2028F |
| Net Income After Taxes | 6.662 | 4.115 | 4.132 | 5.365 | 5.340 | 5.314 | 5.289 | 5.264 | 5.240 | 5.215 | 5.191 | 5.167 | 5.144 |
| Depreciation and amortisation | 3.415 | 3.259 | 3.168 | 3.247 | 3.232 | 3.216 | 3.201 | 3.186 | 3.171 | 3.156 | 3.142 | 3.127 | 3.113 |
| Interest and other financing | 1.687 | 1.656 | 1.603 | 1.530 | 1.523 | 1.515 | 1.508 | 1.501 | 1.494 | 1.487 | 1.480 | 1.473 | 1.467 |
| Income tax | 0.479 | 0.801 | 0.336 | 0.725 | 0.722 | 0.718 | 0.715 | 0.712 | 0.708 | 0.705 | 0.702 | 0.698 | 0.695 |
| Impairment loss | 0.184 | 1.499 | 1.720 | - | - | - | - | - | - | - | - | - | - |
| EBITDA | 12.427 | 11.330 | 10.959 | 10.868 | 10.816 | 10.764 | 10.713 | 10.663 | 10.613 | 10.564 | 10.515 | 10.466 | 10.419 |
| Changes in working capital | 0.102 | (0.463) | (0.356) | (0.915) | (0.855) | (0.851) | (0.847) | (0.843) | (0.839) | (0.835) | (0.831) | (0.827) | (0.824) |
| Interest and other financing c | (0.989) | (0.989) | (0.989) | (1.729) | (0.855) | (0.851) | (0.847) | (0.843) | (0.839) | (0.835) | (0.831) | (0.827) | (0.824) |
| Income tax paid | (1.241) | 2.0% upfront fee for new JPY43.5bn loan | (4.290) | (1.244) | (1.238) | (1.232) | (1.226) | (1.220) | (1.215) | (1.209) | (1.203) | (1.198) | (1.192) |
| Others | (2.503) | (0.033) | (0.033) | (2.227) | (1.818) | (1.809) | (1.801) | (1.792) | (1.784) | (1.775) | (1.767) | (1.759) | (1.751) |
| Cash from operations | 7.796 | 6.592 | 8.365 | 5.668 | 6.905 | 6.872 | 6.840 | 6.808 | 6.776 | 6.744 | 6.713 | 6.682 | 6.652 |
| Capex | (1.571) | (1.659) | (2.340) | (1.776) | (1.767) | (1.759) | (1.751) | (1.742) | (1.734) | (1.726) | (1.718) | (1.710) | (1.702) |
| Net cash used in financing activities | | (1.755) | (2.589) | | | | | | | | | | |
| Available for distribution | 6.225 | 5.178 | 3.436 | 3.893 | 5.138 | 5.113 | 5.089 | 5.065 | 5.042 | 5.018 | 4.995 | 4.972 | 4.949 |
| Payout ratio | 100% | 100% | 100% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% |
| Distributable income available | 6.041 | 5.178 | 3.436 | 3.503 | 4.624 | 4.602 | 4.579 | 4.558 | 4.538 | 4.516 | 4.496 | 4.475 | 4.454 |
| DPU (yen) | 5.497 | 4.712 | 3.126 | 3.188 | 4.208 | 4.188 | 4.168 | 4.148 | 4.129 | 4.110 | 4.091 | 4.072 | 4.053 |
| DPU (sgd cents) | 6.623 | 6.040 | 3.860 | 3.985 | 5.259 | 5.234 | 5.210 | 5.185 | 5.161 | 5.137 | 5.113 | 5.090 | 5.066 |
| JPY/SGD | | 78.0 | 81.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 |
| Dividend yield (%) | 11.7% | 10.7% | 6.8% | 7.1% | 9.3% | 9.3% | 9.2% | 9.2% | 9.1% | 9.1% | 9.0% | 9.0% | 9.0% |
| Discount rate | | | | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% | 7.0% |
| PV of DPU | | | | 0.35 | | | | | | | | | |
| PV Terminal | | | | 0.34 | | | | | | | | | |
| Sum | | | | 0.70 | | | | | | | | | |
| Upside/(downside) | | | | 23.1% | | | | | | | | | |

Source: Company data, KGI Research

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| Rating | Definition |
|---------------|--|
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